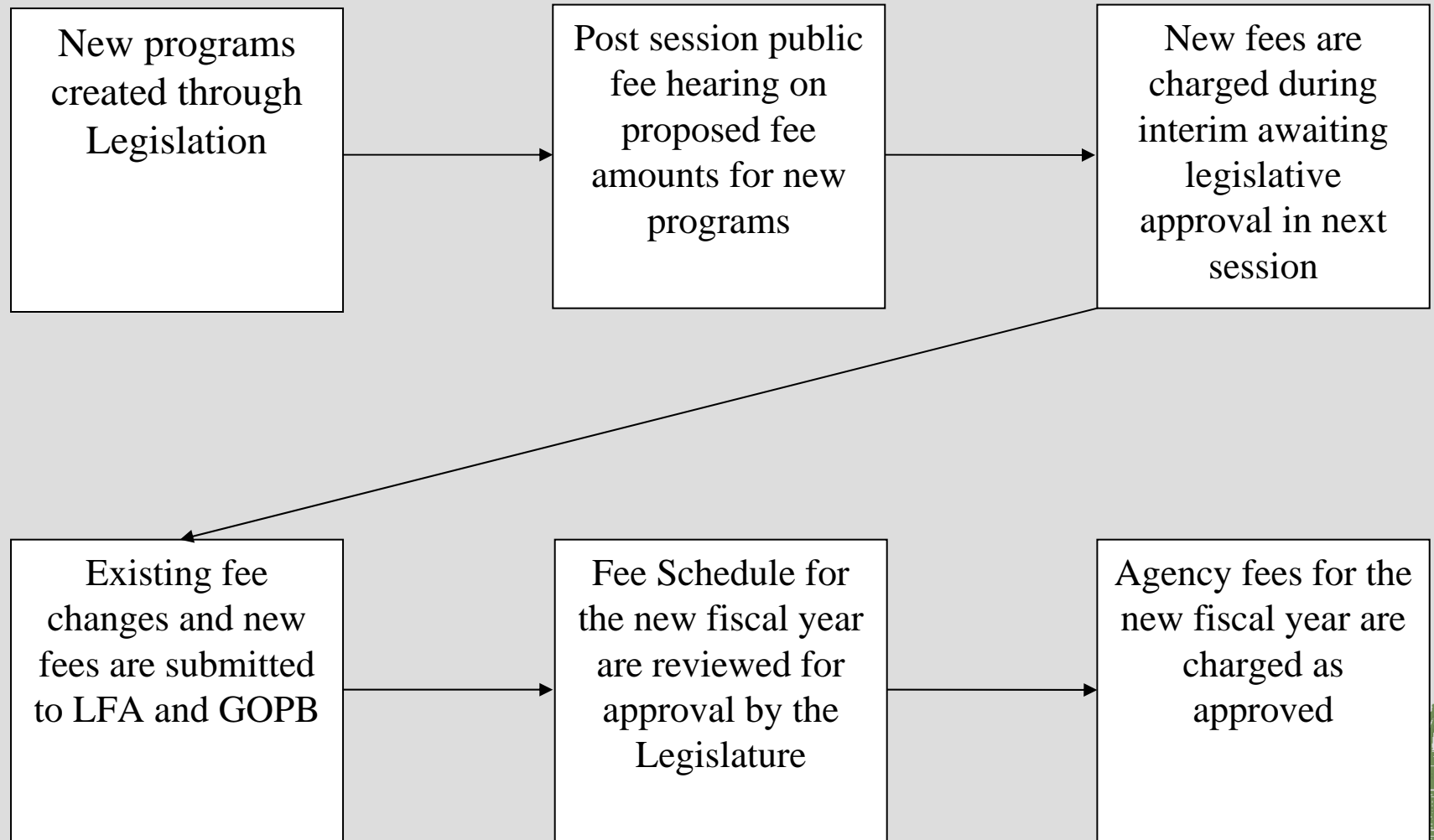


Interim Report:

Fees and Fee Revenue

Fee Approval Process



Policy Questions

1. Which fees should be submitted to the Legislature for approval in an appropriations act?
2. How do other states review and approve fees?
3. For which fees should agencies be required to hold public hearings? What constitutes a public hearing?
4. To what degree are agency budgets impacted by fee revenues? How accurate are agency estimates?
5. Has fee revenue growth been sufficient to cover compensation increases? How can subcommittees account for compensation increases before approving other spending increases?

Which fees should be included in an appropriations act?

- During the 2008 General Session the Legislature approved 2,680 Fees, excluding Internal Service Funds.
- Current definition of regulatory fee is a fee “established for licensure, registration, or certification.”
- Currently, statute does not require that non-regulatory fees be included in the appropriations act.
- The LFA identified 230 fees (9%) in appropriations bills that could be considered non-regulatory. Examples:
 1. Department of Public Safety: *Fingerprints and Photos fees*
 2. Department of Health, Epidemiology & Lab Services: *Environmental Testing fees, Expert Witness fees, Diet Monitoring fee*
 3. Department of Natural Resources: *Camping fees or Easement fees*

Which fees should be included in an appropriations act?

- Whether a fee meets the definition of “Regulatory Fee” isn’t always clear.
- Recommendation:
 - *Clarify in statute that all fees charged by an agency must be submitted to the Legislature and approved in an appropriations act.*

How do other states review and approve fees?

- Texas – The Legislature sets an annual revenue goal for fees; each agency adjusts fees as often as needed to reach that revenue goal.
- Idaho – Agencies set all fees which are subject to legislative review in the first few weeks of session.
- Florida – Agencies must demonstrate annually that fee revenues are sufficient to cover both the direct and indirect costs associated with the services provided or provide justification for a subsidy from other funds.
- Most other states – Some combination of fee details in statute, agency authority to establish fees, legislative oversight of agency authority for setting fees and legislation for fee changes.

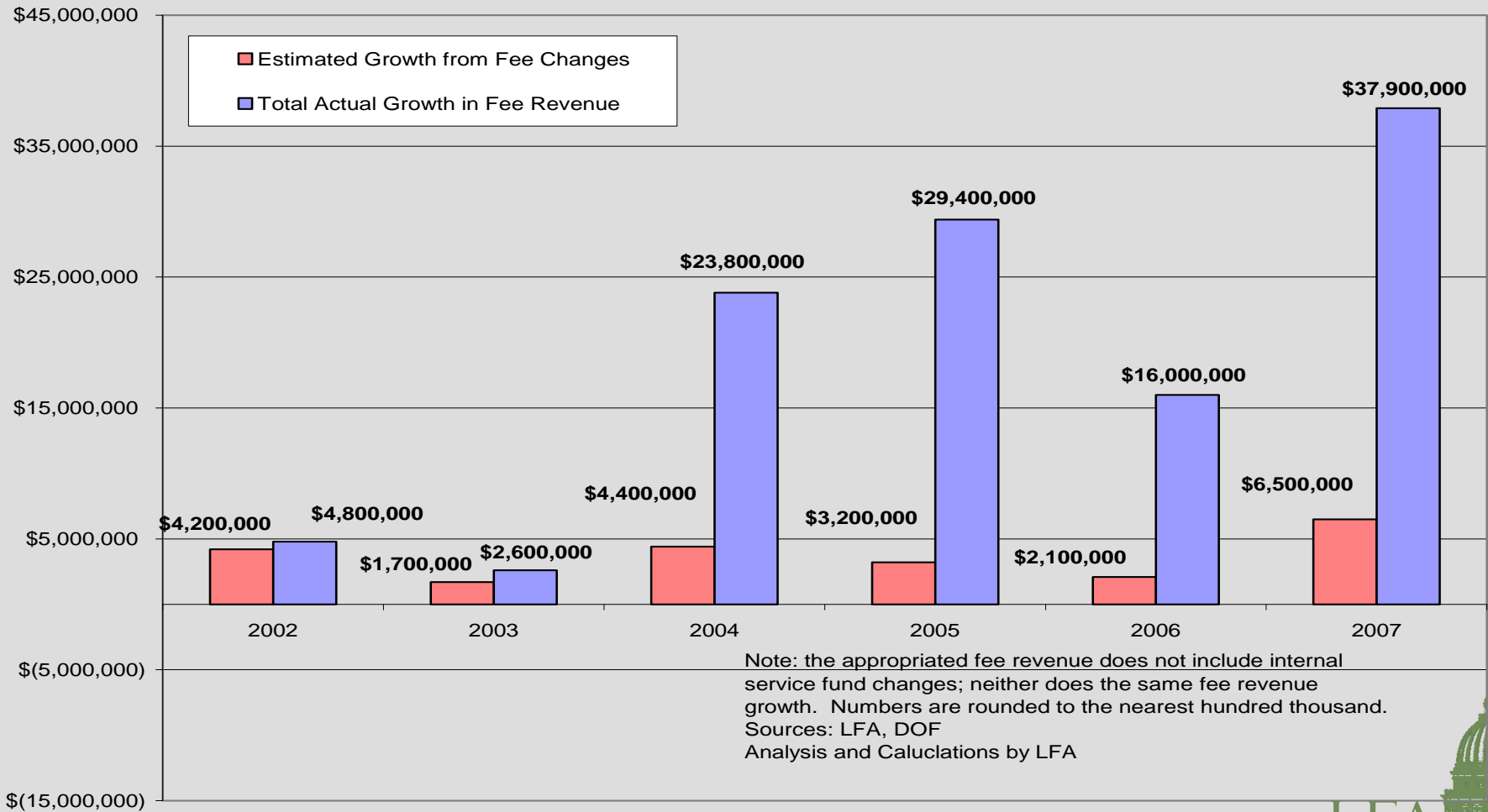
For which fees should agencies be required to hold public hearings?

- Currently, any proposed new regulatory fee must have a public hearing with solicitation of input from the public.
- Appropriations subcommittee meetings are public meetings, but are not considered public hearings for fees.
- In some instances state agencies considered an appropriation subcommittee meeting as a public hearing when establishing new fees.
- Recommendation:
 - *Clarify that regulatory fees are subject to public hearing requirements prior to legislative appropriations subcommittee meetings as defined in statute.*

To what degree are agency budgets impacted by fee revenue? How accurate are agency estimates?

- From FY 1995 to FY 2007 the total growth in fee revenue has been 148%.
- For FY 2007 agencies collected \$263 million in fees. The percentage of fee revenue as percentage of actual expenditure varies by agency.
- For FY 2007 fees to the public comprised 2.5% of the total state budget.
- Fee revenue has a business cycle; magnitude and timing vary with a general pattern similar to the economy.

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- Statute requires agencies to “adopt a schedule of fees assessed for services provided by the fee agency that are reasonable, fair, and reflect the cost of services provided.”
- Recommendations:
 - *Require that agencies provide reports to the Legislature showing how fee revenues compare with direct and indirect costs.*
 - *Direct the Legislative Fiscal Analyst, Governor’s Office of Planning and Budget, and agencies to better forecast fee revenue prior to an annual general session.*

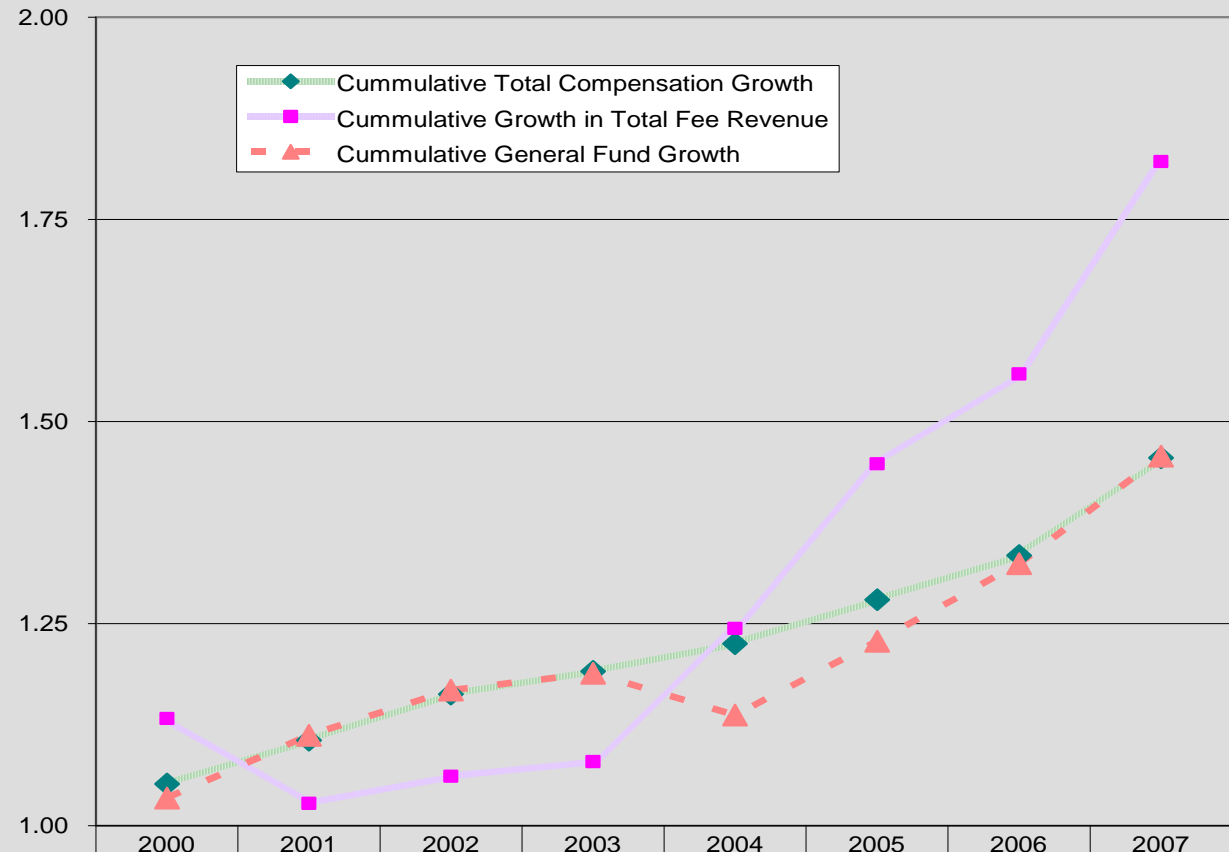
Has fee revenue growth been sufficient to cover compensation increases?

In essence, this chart represents what \$1 of fee would have grown to starting in the year 1999. Fee revenue has grown the fastest (82%), followed by compensation growth (46%), and general fund (46%), which over the time period covered, grew at the same cumulative rate.

One note: the growth in compensation includes actual total compensation growth from 2003 onward. If one allows for average total compensation growth of 5.2% for the years 2000 - 2002, growth in compensation is equal to general fund growth. COLA and merit increases for these years were 4%, 2.5%, and 0% for the years 2000, 2001, and 2002 respectively.

Sources: LFA, DHRM, DOF

Calculations and Analysis by LFA



	2000	2001	2002	2003	2004	2005	2006	2007
Cummulative Total Compensation Growth	1.05	1.11	1.16	1.19	1.23	1.28	1.33	1.46
Cummulative Growth in Total Fee Revenue	1.13	1.03	1.06	1.08	1.24	1.45	1.56	1.82
Cummulative General Fund Growth	1.03	1.11	1.17	1.19	1.14	1.23	1.32	1.46

Has fee revenue growth been sufficient to cover compensation increases?

- Since FY 2004 fee increases statewide appear to be outpacing compensation growth, but may vary by agency.
- Appropriation subcommittees don't know the size of the compensation package during their meetings, use fee revenues for other priorities.
- Recommendation:
 - *Appropriation subcommittees set aside new fee-based revenue sufficient to pay compensation increases prior to approving fee-based revenue for new or expanded programs.*
 - *And report set-asides for compensation and program growth to the Executive Appropriations Committee.*

Recommendations

1. Clarify in statute that all fees charged by an agency must be submitted to the Legislature and approved in an appropriations act;
2. Require that agencies provide reports to show how fee revenues will compare with all direct and indirect costs;
3. Clarify that regulatory fees are subject to public hearing requirements prior to legislative appropriations subcommittee meetings as defined in statute;
4. Direct the Legislative Fiscal Analyst, Governor's Office of Planning and Budget, and agencies to better forecast fee revenue prior to an annual general session;
5. Appropriations subcommittees set-aside new fee based revenue sufficient to pay compensation increases prior to approving fee revenue appropriations for expanded programs and/or projects and that subcommittees report projected revenue, presumed fee-based compensation increases, and fee-based building block appropriations to the Executive Appropriations Committee.